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C O N F I D E N T I A L SECTION 01 OF 02 VILNIUS 000796

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COMMERCE FOR ITA:LMARKOWITZ

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SUBJECT: AMBASSADOR MEETS WITH MINISTER OF ECONOMY

Classified By: Ambassador Cloud for reasons 1.4 (b) and (d).

¶1. (U) Begin summary. In an October 25 meeting, Economy Minister Vytas Navickas told the Ambassador that the capacity of the new Ignalina nuclear power plant (INPP) would not be known until the environmental impact assessment was completed at the end of 2008. He expressed confidence that, despite recent hiccups, Poland and Lithuania would ultimately sign an agreement on a power bridge. The Ambassador and Navickas also discussed natural gas and barriers to investment. End summary.

INPP

¶2. (C) Ambassador Cloud met with Economy Minister Vytas Navickas, Under Secretary Anicetas Ignotas, Advisor to the Minister for Public Relations Ricardas Slapsys, and the Head of the Ministry's Protocol and Communication Division, Lina Neverbickiene on October 25. Navickas predicted that the environmental impact assessment for the new INPP would be completed by the end of 2008. He said that information from the environmental impact research has already been sent to a number of nearby nations for analysis, and specialists from his Ministry had already discussed the issue in Riga and Tallinn. Upon receipt of proposals and comments from nations concerned by the construction of the new INPP, Lithuania will be able to complete the environmental impact assessment and make the appropriate calculations to determine the plant's capacity and the related cooling capacity of the adjoining Druksiai lake. Navickas clarified that technology exists to cool the new INPP without using exclusively Druksiai lake water.

Polish Power Bridge

¶3. (C) Despite the very public failure during the October 10 - 11 Vilnius Energy Summit by Poland and Lithuania to sign an agreement on building a power bridge, Navickas said that the two countries did not suspend speaking about energy relations. He added that he had met with President Adamkus a few days earlier, and said Adamkus felt the energy relationship with Poland was on solid ground.

¶4. (C) Navickas explained that the power bridge agreement does not contain a timeline for construction, but said that by 2012 the line must carry 1,000 MW. In order for Lithuania to benefit from the connection, three to four power lines must be constructed under the power bridge project. Navickas emphasized Lithuania's position is quite firm and public: the GOL cannot guarantee Poland a specific amount of power from the new INPP because it does not yet know the capacity of the new plant. Lithuania could offer more power to the Poles, but that power might not come from the INPP. For example, he mentioned that Lithuania might buy cheap night

power from the Poles to operate the pumps at the Kruonis hydro power station. During the day, the water pumped during the night could run the turbines at the plant and thus Lithuania could sell 900 MW to Poland. According to Navickas, the Poles did not accept this proposal.

15. (C) According to Navickas, 200 million Euros worth of power bridge financing must come from sources other than Poland and Lithuania. He said the INPP decommissioning fund could be used for this purpose.

16. (C) Navickas told the Ambassador that after the closing of the current INPP, and before the completion of the new one, Lithuania has the possibility to negotiate with Russia and Ukraine for additional power, but he acknowledged the price vagaries that could result from such agreements. Without a Polish power bridge, Lithuania will have to rely on the Elektrenai power plant for additional electricity. The Elektrenai plant is an inefficient, natural gas fired plant built in 1962. The director of the Elektrenai plant wants to charge 37 LTL cents per Kwh of electricity produced. The GOL will allow him to charge only 29 LTL cents per Kwh so as not to demonstrate the pricing pressures Lithuania faces for electricity production, Navickas said. Thus, he hopes that after the decommissioning of the INPP the Russians will see that Elektrenai charges 30 LTL cents per Kwh and offer as a competitive bid 25 LTL cents per Kwh.

Natural Gas

17. (C) The Ambassador noted that for imports of natural gas Lithuania depends on one source (Russia) and that the pricing varies greatly. Navickas told him the Deputy General Manager

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of Gazprom would arrive in Lithuania on October 25 to discuss pricing with the GOL. Navickas called 360 USD for 1,000 cubic meters of gas a "tragic" price and noted that he had discussed gas pricing with the PM the day before.

18. (C) Navickas described for the Ambassador the GOL's plans to study liquefied natural gas (LNG) as an energy option for Lithuania. An earlier idea by the GOL was for a terminal in Riga, Latvia. Lithuania would have direct access to this gas via pipeline. Last spring, Navickas sent letters to his counterparts in Latvia and Estonia proposing that they name candidates for an LNG working group. Latvia, according to Navickas, did not propose any candidates and has no interest to meet to discuss this issue. Navickas mentioned that when Prime Minister Kirkilas visited Latvia not long ago, he heard that the Latvians feel they have plenty of natural gas storage options for their needs and, thus, have no reason to investigate LNG. Navickas then went on to say that the GOL might need to pursue LNG alone. Hence, analyses should be done regarding where Lithuania could construct an LNG terminal. Ignotas added that the GOL had already contacted USTDA regarding the construction of an LNG terminal and requested technical assistance with a study. SAIC expressed its interest in performing this study, Ignotas said. A likely place for the new terminal would be Klaipeda, Lithuania.

Barriers To Investment

19. (C) Navickas said that economic relations between the U.S. and Lithuania are good but could be better. The United States and Lithuania have approximately 20 bilateral agreements and treaties, which are a good basis for the countries' economic relationship, but the amount of FDI from the United States in 2006 (approximately 300 million USD) is not a considerable amount. He added that the Lithuanian Development Agency, responsible for attracting FDI to Lithuania, will open an office in the United States.

¶10. (C) Navickas acknowledged that the issue of a SODRA (social security) payment cap is a long-standing challenge for Lithuania. Despite support for the cap from business interest groups such as the Investor's Forum, negotiations with Lithuanian employers regarding this issue showed that a SODRA cap was not one of their primary concerns. Instead, employers are mostly worried about taxation levels on low salary earners. Navickas said he believes that employers' lack of concern regarding a SODRA cap is influenced by trade unions. He opined that the employers do not understand the importance of the SODRA issue. However, Navickas added that he would submit a new investment program to the PM and his cabinet within a week's time and that this program would include a SODRA cap.

¶11. (C) The Ambassador raised the long-standing issue of residency permits. The soon-to-be submitted investment promotion program mentions the permits. Navickas offered that amendments or changes need to be considered in the legislation covering residency. He acknowledged that even the head of the Lithuanian Development Agency has experienced difficulties in obtaining a residency permit for his Argentinean wife.
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